

UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Joseph T. Kelliher, Chairman;  
Nora Mead Brownell, and Suedeene G. Kelly.

East Tennessee Natural Gas, LLC

Docket Nos. RP00-469-010  
RP01-22-012  
RP03-177-007

ORDER ON SEGMENTATION REPORT

(Issued April 13, 2006)

1. On November 4, 2005, East Tennessee Natural Gas, LLC (East Tennessee) filed a report (Segmentation Report) in compliance with the Commission's order in this proceeding dated November 4, 2004 (November 2004 Order).<sup>1</sup> In part, the November 2004 Order directed East Tennessee to include in the Segmentation Report an adequately supported explanation of whether East Tennessee's Patriot Project expansion (Patriot Extension) makes physical segmentation feasible downstream of its Dixon Springs and Lewisburg compressor stations. The November 2004 Order also directed East Tennessee to propose *pro forma* tariff provisions providing for such physical segmentation if East Tennessee concluded that it was operationally feasible. Finally, the November 2004 Order specified the content and format of certain operational data to be included in the report. As discussed below, the Commission accepts the Segmentation Report for filing, directs that East Tennessee meet with its customers, and imposes additional reporting requirements.

**Background**

2. East Tennessee operates a natural gas pipeline system that extends from Tennessee through Virginia to North Carolina. In addition, a lateral extends south from Tennessee to Georgia. The portion of the pipeline in Tennessee consists of two parallel lines, the

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<sup>1</sup> Order on Rehearing and Compliance Filings, 109 FERC ¶ 61,149 (2004).

3100 Line and the 3200 Line, that originate in Greenbrier and Lobelville, in western Tennessee, respectively, and converge into a single line, the 3300 Line, near Knoxville, in eastern Tennessee. The East Tennessee system also includes three main extensions: the Atlanta Extension Line, the Nora-Wallace Lateral and the Patriot Extension. The East Tennessee system is interconnected with Texas Eastern Transmission, LP (Texas Eastern), Columbia Gulf Transmission Company (Columbia Gulf), and the Tennessee Gas Pipeline Company (Tennessee) in western Tennessee upstream of the point where Line 3100 and Line 3200 converge with Line 3300. The East Tennessee system also interconnects with Transcontinental Gas Pipe Line Corporation (Transco) downstream of Knoxville, Tennessee on the Patriot Extension. East Tennessee placed the Patriot Extension into service on November 21, 2003. Additionally, East Tennessee has received a certificate of public convenience and necessity subject to conditions in Docket No. CP05-413-000 to construct and operate the Jewell Ridge Lateral, a 32-mile, 20-inch diameter pipeline in Tazewell and Smyth Counties, Virginia.<sup>2</sup>

3. In East Tennessee's proceeding to comply with Order No. 637, the Commission accepted a settlement providing for shippers to segment their capacity upstream of the Dixon Springs and Lewisburg compressor stations on the 3100 and 3200 Lines in central Tennessee.<sup>3</sup> However, the shippers were not permitted to segment anywhere else on East Tennessee's system. The portion of East Tennessee's system on which segmentation was permitted included its interconnections with Columbia Gulf, Tennessee, and Texas Eastern. The Commission noted that, while East Tennessee then had several future system expansions planned, including the Patriot Extension, its then existing system configuration lacked significant interconnection points that could present segmentation opportunities downstream of the Dixon Springs and Lewisburg compressor stations. However, the Commission further noted that it might become operationally feasible for East Tennessee to offer segmentation in the future because of the various system expansion projects then being contemplated, citing the Patriot Extension in Docket No. CP01-415-000.

4. In a May 23, 2003 Order in East Tennessee's Order No. 637 compliance proceeding,<sup>4</sup> the Commission required that 120 days prior to the proposed in-service date of the Patriot Extension, East Tennessee file an explanation of whether the Patriot Extension would make segmentation feasible, and, if so, include *pro forma* tariff

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<sup>2</sup> 114 FERC ¶ 61,122 (2006).

<sup>3</sup> 98 FERC ¶ 61,060 (2002).

<sup>4</sup> 103 FERC ¶ 61,237 (2003)

provisions providing for segmentation.<sup>5</sup> The Commission explained that the Patriot Extension would create a major point of interconnection with Transco downstream of East Tennessee's Dixon Springs and Lewisburg compressor stations.

5. On December 15, 2003, East Tennessee filed a revised segmentation plan to comply with this aspect of the May 2003 Order. In general, East Tennessee proposed to eliminate the existing provision for segmentation on the western part of its system. Instead, East Tennessee proposed to offer segmentation throughout its system based on what it referred to as a “virtual” hub to be called the ETNG Hub. Under this proposal, shippers could divide their capacity into two types of segments: (1) a Supply Segment running from a primary or secondary receipt point to the ETNG Hub and (2) a Market Segment running from either the ETNG Hub or some other secondary receipt point to a primary or secondary delivery point. The ETNG Hub would have been treated as a secondary delivery or receipt point, depending on whether it is being used as part of a Supply or Market Segment. The East Tennessee Group (ETG) filed a protest and request for a technical conference if the filing was not rejected.

6. In the November 2004 Order, the Commission determined to exercise its discretion not to pursue further NGA section 5 action at that time.<sup>6</sup> The Commission stated that while it was not satisfied that East Tennessee's proposal represented all the physical segmentation that was operationally feasible on its system, particularly since East Tennessee currently allows physical segmentation on the western end of its system, it recognized East Tennessee's operational complexity. The Commission further stated that, based on the current record it was not clear what improvements to East Tennessee's existing segmentation plans could, or should, be ordered under NGA section 5 and that East Tennessee itself asserted that the Patriot Extension has the potential to alter its operations significantly. The Commission concluded that given the customers' preference for continuing the current segmentation system, that it was appropriate to defer action until East Tennessee gained further experience with its operations following the Patriot Project expansion. Accordingly, East Tennessee's December 15, 2003 compliance filing was rejected.

7. The Commission directed East Tennessee to file a report within one year of the date that order issued explaining whether the Patriot Project expansion makes physical segmentation feasible on the portion of East Tennessee's system downstream of the Dixon Springs and Lewisburg compressor stations fully reflecting the existing physical segmentation on its system, and, if so, proposing *pro forma* tariff provisions providing for

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<sup>5</sup> A notice was issued on July 7, 2003 extending the time for submission of the filing to and including December 15, 2003.

<sup>6</sup> *General Motors Corp. v. FERC*, 613 F. 2d 939, 944 (D.C. Cir. 1979).

physical segmentation. East Tennessee was required to include in the report: (1) for the annual period ending August 31, 2005, (a) system maps and a flow diagram indicating (i) peak day and average day gas flows, (ii) actual peak day and average day receipts and deliveries at each receipt and delivery point, and (iii) the location of any null points, and (b) a detailed description specifying (i) any days of the annual period on which null points occur on East Tennessee's system and (ii) the location of the null points occurring on such days; and (2) current steady-state and transient computer simulation input and output files on CD-Rom, including average daily, design day, and peak day flow scenarios of the entire pipeline system with a computer graphic representation of the pipeline.

8. East Tennessee filed its Segmentation Report on November 4, 2005. East Tennessee concludes that its analysis of the data included in the report on system operations, data regarding the Patriot Extension operations, and the parameters of its existing services, shows that it cannot implement system-wide segmentation at this time. Regarding its operations, East Tennessee asserts that its system experiences null points<sup>7</sup> that can change their number and location under different conditions and during the day. East Tennessee further asserts that the potential for other null points also exists. East Tennessee contends that these null points force it to meet its delivery obligations through displacement rather than physically pathing in a linear fashion from one point to another, except for that portion of the East Tennessee system upstream of the Dixon Springs and Lewisburg Compressor Stations. East Tennessee further contends that the initial level of service on the Patriot Extension has not affected how null points occur on its system. Finally, East Tennessee asserts that the operation of Operational Balancing Agreements (OBAs) under Rate Schedules LMS-MA and LMS-PA prevents East Tennessee from establishing system-wide segmentation since East Tennessee can not determine exactly how the system will be used based on customer nominations. East Tennessee further asserts that the impact of these OBAs precludes it from monitoring for overlapping Maximum Daily Transportation Quantities (MDTQs) or verifying real time, actual contract path under a system-wide linear segmentation system which in turn could jeopardize system operations and reliability.

9. Public notice of East Tennessee's instant filing was issued on November 17, 2005, requiring interventions and protests to be filed by November 25, 2005. Pursuant to Rule 214,<sup>8</sup> all timely-filed motions to intervene and any motions to intervene out-of-time filed before the date of issuance of this order are granted. Granting late intervention at this stage of the proceeding will not delay or disrupt the proceeding, nor will it place

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<sup>7</sup> East Tennessee asserts that its system is operationally unique due to multi-directional flows and null points or "no-flow points".

<sup>8</sup> 18 C.F.R. § 385.214 (2005).

additional burdens on existing parties. On December 16, 2005, ETG and Sequent Energy Management, L.P. (Sequent) filed comments.<sup>9</sup> On January 18, 2006, East Tennessee filed an answer to the comments.<sup>10</sup>

10. ETG states that it is skeptical of East Tennessee not offering any additional segmentation anywhere on any portions of its system and the claim of inconsistency with current operations. However, ETG states it would strongly oppose any material revision to the current OBA scheme. In view of these considerations, ETG recommends that the Commission require East Tennessee to file another segmentation report in November 2006 explaining, with adequate support, whether developments on its system have made physical segmentation feasible on all or any additional portions of its system and, if so, proposing *pro forma* tariff provisions providing for such segmentation. ETG states that in addition to the increased experience with the Patriot Expansion, there are at least two other upcoming developments which will be relevant: East Tennessee, under its recent rate settlement approved in Docket No. RP05-672-000,<sup>11</sup> will file for an eastern pooling point that will cover Saltville and the Early Grove storage facilities and East Tennessee's LNG storage facility. Also the Eastern Extension Project of Midwestern Gas Transmission Company (Midwestern), issued a certificate subject to conditions in Docket No. CP05-372-000,<sup>12</sup> will interconnect with East Tennessee and should create substantially more flow across the system from west to east.

11. Sequent argues that East Tennessee has failed to show that segmentation is operationally infeasible. Sequent contends that the Commission should require East Tennessee to offer segmentation on all straight line sections of its pipeline. Sequent further contends that East Tennessee should be required to develop segmentation criteria to evaluate segmentation on the triangular section of East Tennessee's system formed at the convergence point of the 3100 and 3200 lines near Knoxville, Tennessee and the tie-line between those two mainlines that portion of its system. Sequent argues that East Tennessee is a straight line pipeline and not a reticulated pipeline, and East Tennessee has not explained why contractual and actual flow paths have to be the same to implement segmentation since the real issue is point capacity.

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<sup>9</sup> By notice issued on November 23, 2005, an extension of time for filing of comments was granted to and including December 16, 2005.

<sup>10</sup> On December 29, 2005, the Commission issued a notice establishing a deadline of January 18, 2006, for filing answers to the comments filed on December 16, 2005.

<sup>11</sup> 113 FERC ¶ 61,099 (2005).

<sup>12</sup> 114 FERC ¶ 61,257 (2006).

12. Sequent further argues that since customers must nominate to specific points, East Tennessee has not explained why it cannot provide segmentation on the straight line portions of its system as it does upstream of Dixon Springs and Lewisburg. Sequent asserts that, with respect to the Patriot Extension, increased capacity, utilized or not, should enhance segmentation. Sequent contends that it is its understanding that OBAs to which East Tennessee refers are only available at the western end of East Tennessee's system, *i.e.*, upstream of the Dixon Springs and Lewisburg compressor stations, where ETNG currently allows segmenting. Sequent further contends that, in any case, East Tennessee has made no showing why it cannot offer both balancing services and segmentation. Sequent requests that the Commission either direct East Tennessee to implement system-wide segmentation or establish a technical conference or other appropriate forum to more fully address the issues raised in the Segmentation Report.

13. In its answer, East Tennessee contends that while certain discrete portions of the East Tennessee pipeline system may not be as susceptible to null point and flow reversal issues as other portions of the system, the current balancing services extend across the system and preclude segmentation even along these discrete sections of the pipeline. East Tennessee further contends that with its distinct operational and service considerations, the East Tennessee system effectively operates as a reticulated system, and it is not able to divide the entire system into a series of linear paths for system-wide segmentation purposes. East Tennessee asserts that it meets a significant proportion of its delivery obligations by displacement rather than physically pathing gas from one nomination point to another, and the operational and service constraints associated with its system prevent East Tennessee from establishing the direction of flow and physically pathing gas for all nominations on its system in a linear fashion. East Tennessee further asserts that multiple contract paths on the East Tennessee system are directly affected by the existence of both convergent and divergent null points. East Tennessee contends that its system continued to experience null points after the Patriot Extension went in-service, and the volumes on the Patriot Extension must be significantly increased for the Patriot Extension facilities to have an impact on the location and frequency of the null points. Finally, East Tennessee states that it agrees that certain upcoming system developments could modify the operational characteristics of its system and it is amenable to meet with its customers regarding system-wide segmentation concerns and alternatives, and to report back to the Commission in November 2006 on such discussions.

### **Discussion**

14. ETG has requested that East Tennessee be required to file another segmentation report in November 2006 consistent with its ongoing segmentation requirement, and Sequent has requested a forum to more fully address the issues in the Segmentation Report. Since the Segmentation Report was filed, a certificate of public convenience and necessity subject to conditions has been issued for construction and operation of the Jewell Ridge Lateral in Docket No. CP05-413-000, East Tennessee has filed an eastern-

end pooling point proposal to enhance operational flexibility on its system, and Midwestern's Eastern Extension Project was authorized subject to conditions. In its answer, East Tennessee agrees that upcoming system developments could modify the operational characteristics of its system and offers to meet with its customers to discuss system-wide segmentation concerns and alternatives and report to the Commission in November 2006 on such discussions. In these circumstances, the Commission has determined to accept the Segmentation Report for filing and direct East Tennessee to file a report with the Commission on November 4, 2006 which updates the data contained in the Segmentation Report and addresses the same issues required to be addressed by the November 2004 Order with adequate support (November 4, 2006 Report). The November 4, 2006 Report must cover the 12-month period ending August 31, 2006. In addition, the Commission directs East Tennessee to meet with its customers to discuss implementation of segmentation, and to include the results of such meeting(s) in the November 4, 2006 Report. The November 4, 2006 Report must include a description of any system developments which have modified or could modify the operational characteristics of East Tennessee's system and their impact on the implementation of segmentation on its system. Finally, if the November 4, 2006 Report concludes that segmentation is operationally feasible, East Tennessee is directed to include in that report *pro forma* tariff provisions which are necessary to implement such segmentation.<sup>13</sup>

The Commission orders:

(A) The Commission accepts the Segmentation Report for filing subject to the conditions in this order and the ordering paragraphs below.

(B) East Tennessee is directed to file a report with the Commission on November 4, 2006, updating the data and addressing the same issues required to be addressed by the November 2004 Order with adequate support. The November 4, 2006 Report should cover the 12-month period ending August 31, 2006. The November 4, 2006 Report must include a description of any system developments which have modified or could modify the operational characteristics of its system and their impact on the implementation of segmentation on its system.

(C) East Tennessee is directed to meet with its customers to discuss the implementation of segmentation, and to include in the November 4, 2006 Report the results of such meetings.

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<sup>13</sup> See 18 C.F.R. § 284.7(d) (2005).

(D) East Tennessee is directed, if the November 4, 2006 Report concludes that segmentation is operationally feasible, to include in that report any *pro forma* tariff provisions which are necessary to implement such segmentation.

By the Commission.

( S E A L )

Magalie R. Salas,  
Secretary.